



Business Development/Recruitment Subgroups Interim Report

Subgroup Activity:

The Business Development and Business Recruitment Subgroups have held three interim meetings in Richmond. Meetings were held June 2nd (Recruitment) and 3rd (Development), July 7th and July 19th. After the initial subgroups meeting there was a desire for the two subgroups to meet jointly as their focus is closely aligned. Because of the interest in Research and Development and collaboration with Virginia colleges and universities, outreach efforts to the University Economic Developers Association and Council on Virginia's Future have taken place. In addition, presentations have taken place from the Virginia Economic Development Partnership. Stakeholders meetings with the Virginia Municipal League, Virginia Hospitals and Healthcare Association and Virginia Retail Federation have taken place.

Analysis:

Virginia has consistently been ranked #1 or #2 over the last four years as the best place in the country to do business. However, in the ALEC-LAFFER State Economic Competitiveness Index, Virginia was ranked #4 in Economic Outlook in 2009 and dropped four spots to #8 in 2010. It is important the Commonwealth have a balanced approach to recruiting new businesses, helping businesses start, and retain and expand existing business (where 70 percent of growth is from existing business). There is a great desire to create a stronger synergy between business and higher education, regionalism amongst localities and using all assets (not just state government and local government) to make Virginia *the choice* for business. Areas of taxation as well as workforce training are a great concern for impeding to job creation. In addition, the uncertainty in the business community of the true impact of legislation and regulation coming out of Washington is a huge concern for having a negative impact on job creation in the Commonwealth.

Vision/Strategies:

- I. Analyze existing economic development programs and initiatives, including regional and local initiatives, and recommend opportunities to recruit, retain and expand existing business to the Commonwealth focusing on targeted areas of information technology, advanced manufacturing, energy and life sciences – including domestic and international business.

- II. Assess Business Recruitment/Retention Transition Work Group recommendations and build upon proposals.
- III. Assess potential threats to existing businesses and business recruitment in the Commonwealth – including incentives, tax structure and workforce.
- IV. Assess current obstacles to business expansion and recruitment – whether through regulations or legislation at the local, state and federal level and propose actions to remove these obstacles.
- V. Analyze what competitor states are doing with regard to business development and recruitment, and recommend similar programs/initiatives that can be launched in the Commonwealth to improve the Commonwealth’s position as the best place to do business.
- VI. Analyze and recommend opportunities to better leverage marketing of existing Virginia business domestically and internationally.
- VII. Analyze and recommend opportunities to better utilize existing economic development assets.
- VIII. Analyze and recommend ways to better integrate higher education system and support CCAM and “Centers of Excellence” focused in targeted areas.

Initial Ideas and Recommendations:

The top priority of Governor Bob McDonnell and his administration is to create a “Commonwealth of Opportunity” for all Virginians. This message is resonating in the business community – and we should take every opportunity to harness this energy and capitalize on job creation opportunity from existing business as well as new corporate citizens in the Commonwealth.

Initial ideas and recommendations of the subgroup are as follows:

Taxation and Incentives

In economic development, there is no standing still. It is a dynamic, ever changing environment where the competition for jobs and new investment grows more intense every day. As a result, we must be constantly examine our government policies, particularly tax policies, to ensure Virginia maintains its competitive lead and effectively responds to actions taken in other states and overseas. Among the policies actively discussed among the subgroup members was the proposed elimination of Virginia's corporate income tax. Several states and countries that are key competitors of Virginia have either reduced, or are taking steps to eliminate, this tax. The subgroup believes such an action, among others, could be a game changer for Virginia - sending

a bold statement to companies that Virginia is indeed open for business and business investment. At the same time, however, other taxes impose similar competitive disadvantages upon Virginia businesses, notably the BPOL tax and the machinery and tools tax. The current review of the corporate income tax by JLARC that will be released in November will be useful to determining what kind of a potential impact the elimination of that tax could have on job attraction and retention efforts. Any action taken to reform or eliminate these burdensome taxes should be done in such a way to complement the state's business development goals as outlined in the state's economic development strategic plan.

The subgroup recognizes the need to provide the right incentives for companies that are easily moved that do not require large facilities and infrastructure. In addition, there is an interest in an Emerging Technologies Fund, similar to a program in Texas, providing flexibility in incentive opportunities as it relates to quickly evolving technologies – addressing small, medium and large businesses. A particular area of focus for the Commonwealth is the life sciences and biotechnology. Burdensome taxation is the biggest problem for the expansion of biosciences – and is also a factor into why people are leaving money overseas rather than investing in the Commonwealth.

In examining all new incentives, as well as existing incentives, the Commonwealth should have a rigorous return on investment strategy, aligned with benchmarking and accountability to be good stewards of the public dollar.

Education and Research and Development

The subgroup recognizes the need to systematically make fundamental changes in how we disseminate information on our institutions of higher education excellence. There is currently no method to know about the pockets of excellence in our higher education system. The intellectual and innovative capital between the University of Virginia and Virginia Tech has recently been described by a CEO of a technology company as being strong than MIT but underutilized.

There is a consensus that our universities research and development capabilities and collaboration with the private sector are deficient. By coordinating our academic institutions and creating them as economic engines, there is a desire to create “think tanks” with academic institutions, such as Commonwealth Center for Advanced Manufacturing, that carry on the economic strategies and target areas discussed at the state level.

In addition, curriculum at the community colleges and four-year institutions of higher education should be aligned with economic development strategies of the Commonwealth. We should be able to say we will have a state-trained and prepared workforce with a one year notice of a business request.

Business Climate and Regulation

Business relationships are key and perhaps the best opportunity for business development and recruitment by the Commonwealth. Just as private sector business leaders build new opportunity through relationships – Administration and economic development leaders should aggressively

engage in building business relationships as part of a process to stay in tune with the business community. This will assist with keeping a finger on the pulse of how to better structure transportation, taxes, workforce policies, programs and regulations to support business expansion through practical, real world experience.

During recruitment of new business opportunities, Administration and economic development leaders at the state and local level should engage a coalition of partners to create a synergy. Often bringing the community together to solve problems could be instrumental in demonstrating why Virginia is the choice for a company to relocate, expand or start up.

The Commonwealth is ranked one of the best states to do business and we ought to enhance and build upon Virginia's strengths. These are not only business strengths – but also the strengths of our population, natural resources and a positive direction of where Virginia is headed in the next five years. We should better showcase why Virginia is the best of the best in industry.

One of the most frustrating parts of interaction between business and government is time. Time is money and all too often government interaction and services take too much time. An examination of regulations that make no sense and take unnecessary time is suggested – recognizing this is an area for the Commission on Government Reform. There are multifaceted aspects of a project – any one of a dozen government agencies can do a project in – and the agencies should work better together. A project manager approach could be an effective tool to this and regional economic development offices might also be examined.

While there is a great need for venture capital in the marketplace – there is a concern government involvement only makes venture capital opportunities worse.

The subgroup would like to examine opportunities for tort reform to reduce the cost of doing business in the Commonwealth. Proposed legislation on summary judgment might be an area to examine.

Regional Collaboration

There is a recognized need for more regional collaboration in the Commonwealth – and how can the state reward areas for working together not only within a region but also amongst regions. An examination of the Regional Competitiveness Act might be worthwhile to see if there is an opportunity to refocus and reinvigorate this program.

Federal Policies

There is a great concern of the impact of health care reform and a need to look for opportunities where the Commonwealth might be able to lead. The group also recognized the potential negative impact of policies coming out of Washington, D.C., both through legislation and regulation. The federal government will be a driver in a number of areas and the Commonwealth needs to formulate a policy to address these concerns.

Next Steps

The August meeting will focus on aerospace, higher education (CCAM), the Virginia Port and regionalism. A survey will be disseminated to statewide stakeholders. Members of the Jobs Creation Commission will be participating in a panel at the Virginia Economic Developers Association and we will receive feedback from them. In addition, staff will continue outreach with stakeholders and recommendations to the group.